



Response to the TRAI Consultation Paper on 'Tariff Issues of Telecom Services' released on December 17, 2019

At the outset, COAI welcomes the opportunity to comment on the TRAI Consultation Paper on 'Tariff Issues of Telecom Services'.

Preamble:

1. COAI in the past has generally maintained a position that any type of the Regulation on pricing/tariffs by the Government /Regulator has potentially high costs for the telecom players. However, we also understand that there is a need for the Regulator to intervene with Regulation of prices as there are challenging circumstances existing about the financial viability of the industry. We are of the view that the current pricing scenario in the telecom sector qualifies on all criterion for TRAI intervention.
2. COAI has written to TRAI on 3rd December 2019, where it has sought Floor Price as a measure to increase the revenue of the telecom sector which will contribute to the orderly growth of the sector. We are thankful to the Authority for considering the same for this consultation.
3. Any regulatory price control mechanism should encourage prices that are fair and reasonable. In the context of India, a price war driven by hyper-competition has led to services being offered at unsustainably low rates.
4. The financial pressures on operators and continuous pressures on profitability have driven sector consolidation. Further, decline in data tariffs and erosion of domestic voice revenue have impacted operators' sustainability. Over the last four years, tariffs have fallen to rock-bottom levels. Unlimited Voice calls are being offered along with the data tariffs plans. Data realization as of September 2019, was Rs. 6.98 per GB, which is one of the lowest in the world. The low data tariffs have resulted in an enormous increase in the usage of mobile data and have made India the highest consumer of mobile data in the world.
5. The tremendous growth in data usage has not translated into revenue growth for the TSPs. While the operators need to invest more into their networks to support such humongous data

usage, their inability to convert such high data usage into revenues has created a major hurdle in the expansion of the networks.

6. Whenever there has been excessive competition, the world over, the concept of floor prices has been used as a tool to regulate the market. Some of the examples of the countries wherein the floor has been set by the Regulator has already been highlighted in the Consultation Paper.
7. The telecom sector is a highly evolving sector in terms of technology with large capex requirements to ensure adequate QoS. Our member operators are committed to meet the ambitious targets for the telecom sector as set out by the Government. However, we would like to point out that all these goals will require substantial investments for spectrum, technology, equipment and fibre backbone, to meet the QoS requirements. The telecom industry is currently under financial stress and will not be able to generate funds for making such investments as all sources of investments namely equity infusion, loans and surplus of the operators have dried up.
8. Hence, we are of the view that fixing the floor price for the data services will have the following positive impact on the sector:
 - a. Provide sustainability and recover costs; remove the financial stress and enable competition in market
 - b. The above will help in investments, which are not possible otherwise
 - c. Industry will compete on Quality of Service
 - d. Industry will compete on product differentiation

Keeping in consideration the above highlighted points, we would like to make the following submissions on the issues raised by TRAI in the consultation paper:

Q1. Do you foresee any requirement of regulatory intervention at this stage in tariff fixation to protect the interest of telecom service providers as well as the consumers? Please support your comments with justification.

Q2. Do you foresee any need for change in TRAI policy of forbearance in tariffs? Please give reasons for your response.

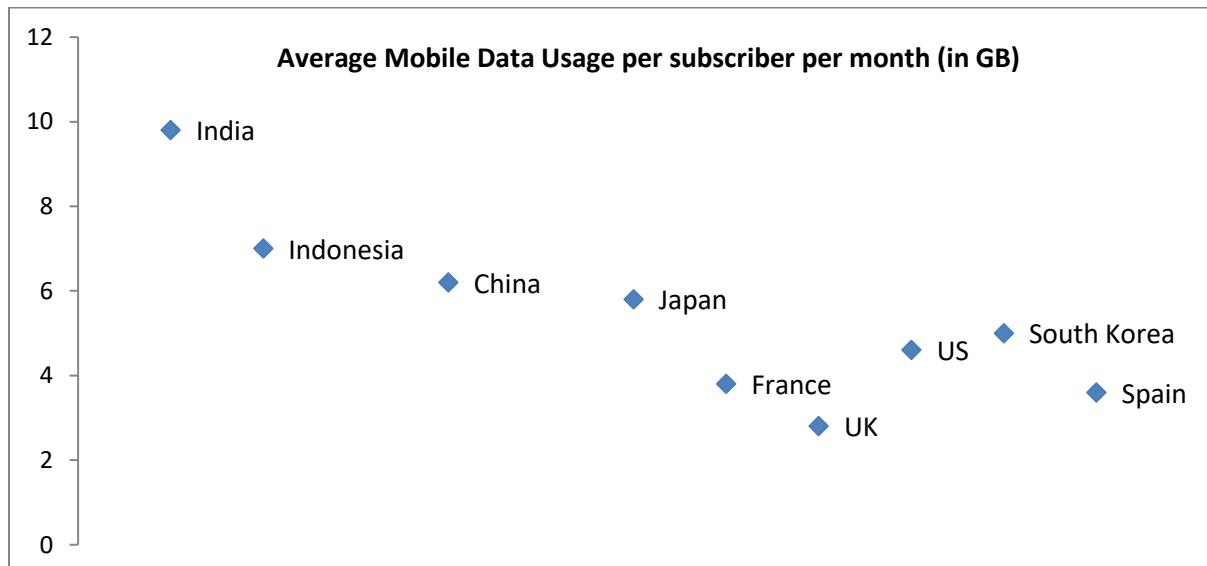
Q3. If the answer to Q1 is in affirmative, is fixing a floor price, i.e. a standing prohibition on TSPs not to offer services below a predetermined price level, the answer? Please give detailed reasons for your response.

Q4. Do you perceive a need to fix floor price despite the fact that the TSPs have increased their tariff recently? Please support your response with detailed justification.

COAI Response:

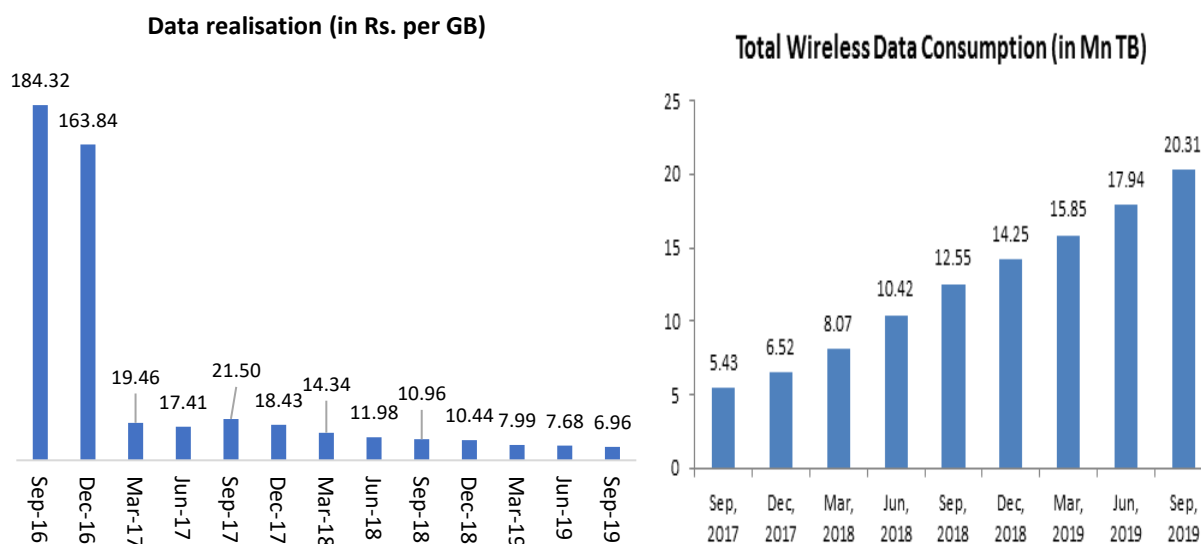
1. India's mobile telecom sector has empowered over 1 billion citizens and has one of the lowest voice and data rates in the world today. However, the Industry that has invested over INR 10 lakh crores in setting up world-class mobile networks over the last 20 years is going through one of its most disruptive phases.
2. The financial pressures on operators and continuous pressures on profitability have set in sector consolidation. Further decline in data tariffs and erosion of domestic voice revenue has impacted operators' sustainability. Over the last four years, tariffs have fallen to rock-bottom levels. This results from the fact that competition driven data tariffs plans are being offered by TSPs and data tariffs are quite affordable than earlier. Unlimited Voice calls are being offered along with the data tariffs plans. Data realization as of September 2019 was Rs.6.98 per GB, which is one of the lowest in the world. The competition driven low data tariffs have resulted in enormous usage of mobile data and have made India the highest consumer of mobile data in the world. The figure below depicts the comparative analysis of mobile data usage (excluding Wi-Fi) per user per month in some of the countries.

Fig1: Mobile Data Usage (in Gb) per user per month¹



¹ Source: Nokia MBiT Report 2019

Fig:2: Data Realization²



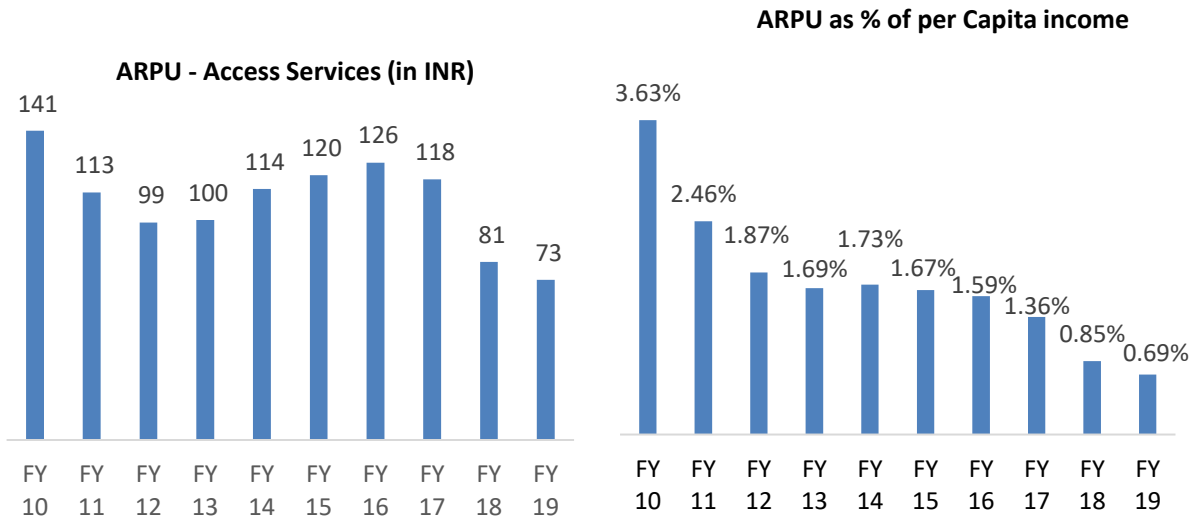
3. The mammoth growth in data usage has not translated into revenue growth for the TSPs. While the operators need to invest more into their networks to support such humongous data usage, their inability to convert such high data usage into revenues has created a major hurdle in the expansion of the networks.
4. Further, because of the low data and voice tariffs, the ARPU has fallen significantly and is at the record low level. In fact, industry ARPU has declined drastically by almost 48% in the last 10 years i.e. from **INR 141 in FY 10 to INR 73 in FY 19³** and thus subscribers in India spend only a fraction of their Income on communication needs. Also, a declining ARPU has meant that revenue per user as a percentage of Per Capita Income has declined significantly from **3.6% in FY 10 to a mere 0.69% in FY19.⁴** Today's consumers are paying a trivial amount of their income for their communication needs, compared to what they used to pay just a decade ago even while enjoying the benefits of 3G & 4G.

² Source: TRAI, PMR Sept 2019

³ Source: TRAI

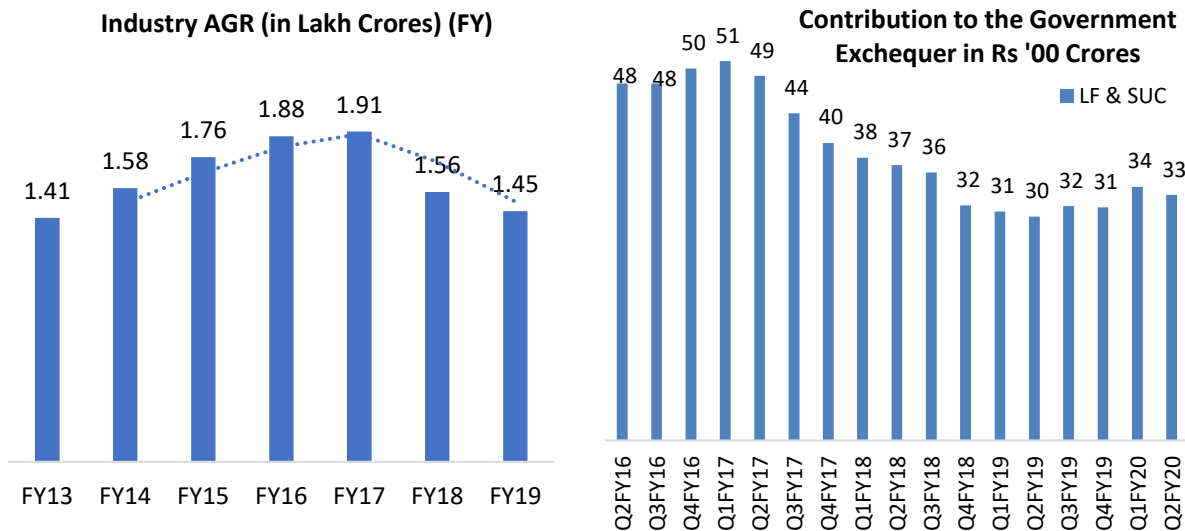
⁴ Source: TRAI Reports, RBI, COAI estimates

Fig :3 Industry ARPU⁵



- Because of the low ARPU levels due to aggressive pricing by the TSPs, the AGR of the Industry has continued to stay under pressure. Further, the decline in Industry revenues has adversely affected government revenues from wireless services, which were down to Rs. 3,300 Crores in 2QFY20.

Fig 4: Industry revenue and Contribution to Government Exchequer⁶

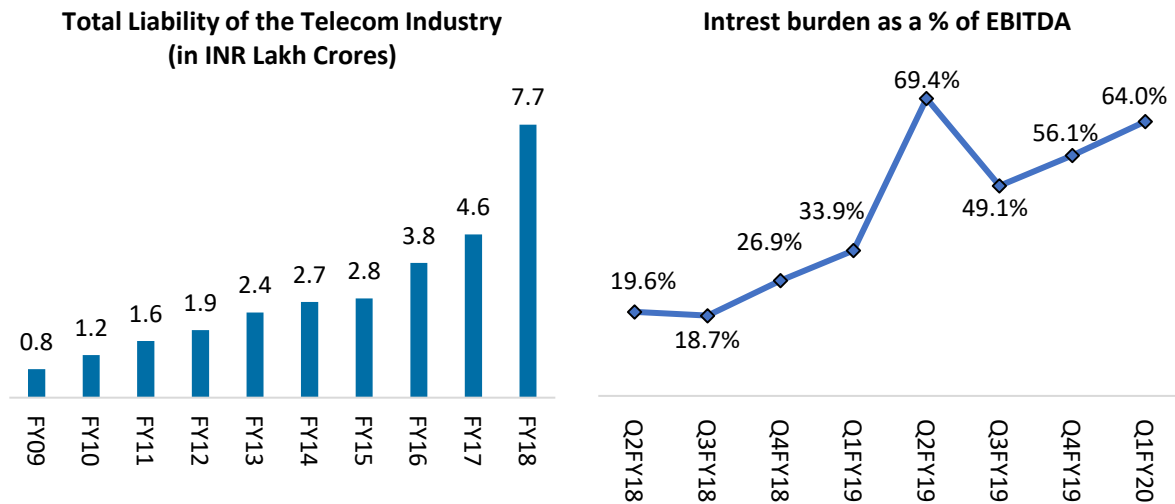


⁵ Source: TRAI, COAI Analysis, RBI

⁶ Source: TRAI

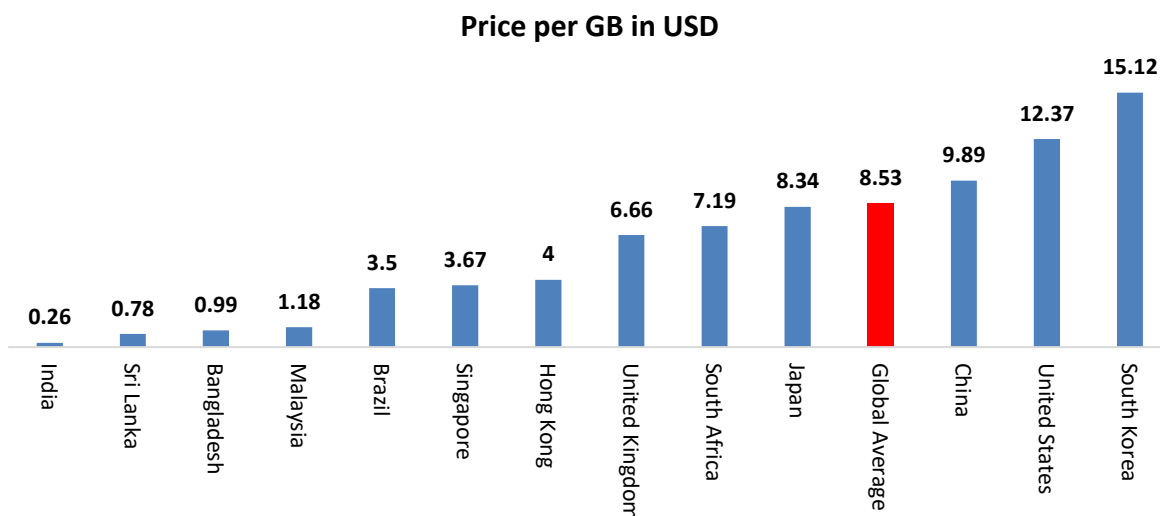
6. The Telecom EBITDA continues to contract, while the Interest expenses of the Industry continues to increase as a result Interest Burden as a % of EBITDA has increased significantly.

Fig 5: Total Liability of the Industry & Interest burden as % of EBITDA⁷



7. Despite the financial situation as highlighted above, the TSPs have been offering the data services at a rate that is lowest in the world. Price per GB in India is 33 times lesser than the Global average. Figure below shows the price per GB in USD in major countries:

Fig 6: Price per GB in USD in major countries⁸



⁷ Source: Parliament Question, COAI Analysis

⁸ Source: Cable.co.uk , site accessed on 24.02.2020

8. Considering the above, it is high time that telecom, both as a service and infrastructure, be considered as a resource of national importance and it is essential that the Authority protect the interest of both the Service Providers and the consumers alike, as enunciated in the preamble of the TRAI Act. Fixing the floor price for the data services will ensure the infusion of fresh investments in the sector to improve the data connectivity and penetration of broadband in India. After all, the data connectivity to the India's population with wide deployment of broadband is the core to the 'Digital India' scheme.
9. This fact has been duly recognized by the Government and has envisaged in the Strategies outlined in the path breaking National Digital Communication Policy (NDCP)-2018. To achieve the 2022 Goals prescribed in NDCP-2018, the immediate priority for the government should be to ensure that the sector should remain sustainable, attractive for future investment. NDCP-2018 has also set the goal to attract investment of 100 billion USD by 2022.
10. But the question arises as to **where this investment will come from?** For a business to generate capital expenditure it either needs to generate sufficient profits which can be ploughed back to the business or it needs to be attractive enough to attract funds.
11. Hence, it is vital to ensure that the telecom industry remains financially strong. The financial health of the telecom industry must be safeguarded and there is a need to boost the financial viability of Industry to attract the necessary investments for expansion of service.

Investment in Telecom

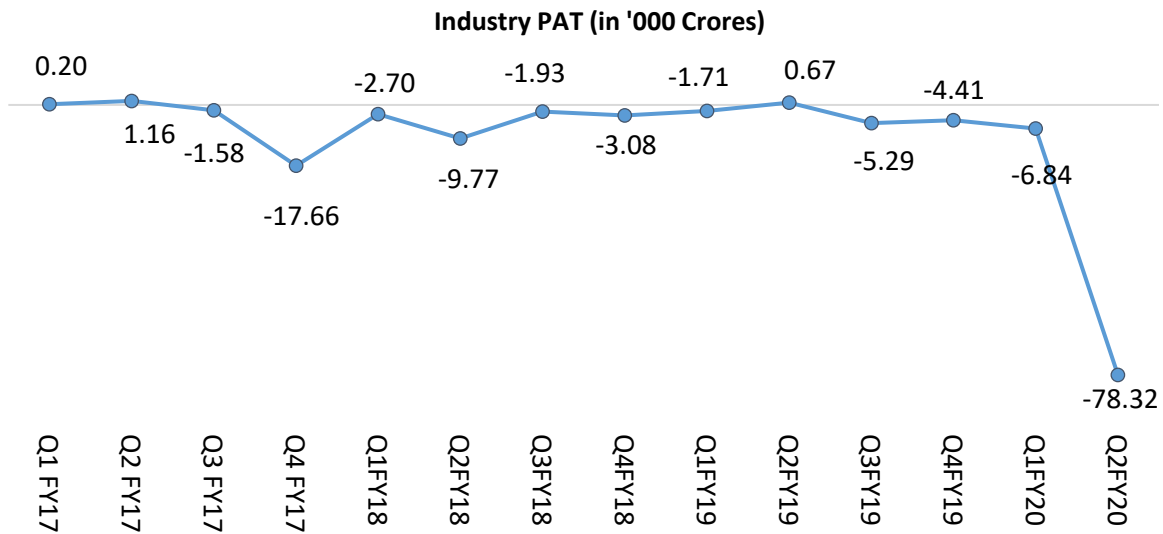
12. There is always a need in telecom to meet the requirements of network expansion, technology upgradation, and greater fiberisation in the face of an ever-increasing appetite for data usage. The Industry that has invested over **INR 11.25 lakh crores**⁹ in setting up world class mobile networks over the last 20 years. Industry has committed around **INR 3.68 Lakh crores**¹⁰ in spectrum through auctions since 2010. While the industry faces a daunting debt burden of more than **INR 7.7 Lakh Crores**, the revenues and profitability have declined significantly.
13. It was in the third quarter of FY 2017, when India's wireless industry gross revenue registered its first ever year-on-year decline. Further, from second quarter FY17 to the second quarter of FY20, the industry AGR witnessed a decline of 33% i.e. from **INR 41,658 Cr in 2QFY17 to INR 27,921 in 2QFY20**¹¹.
14. The PAT figures of the TSPs for the 2QFY20 reflects as to how the Industry is financially placed currently;

⁹ Source: Parliament question, COAI Analysis

¹⁰ Source: DoT

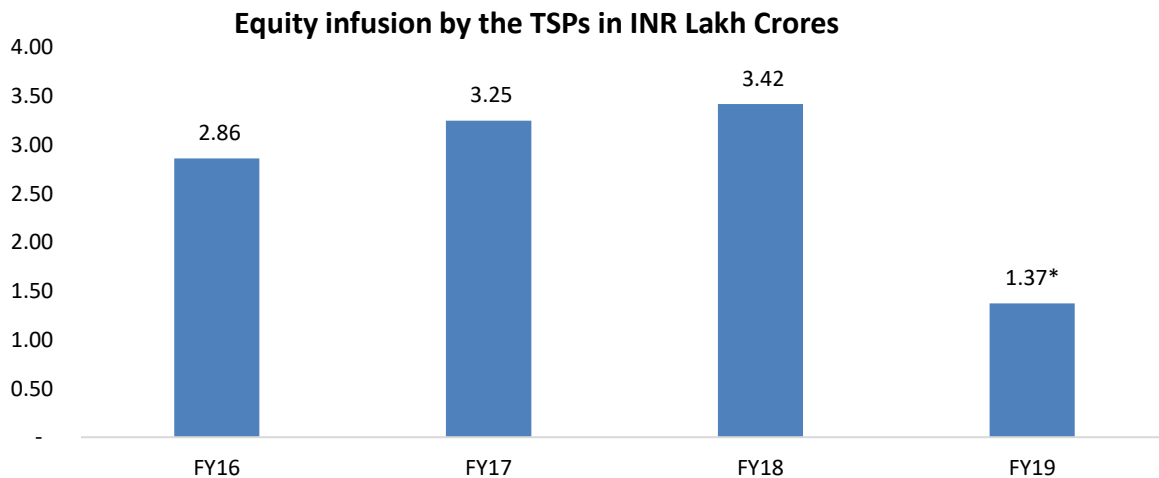
¹¹ Source: TRAI PMR

Fig 7: Industry Profit after Taxes¹²



15. There has been substantial amount of equity infusion by the TSPs in the last four financial years.

Fig 8: TSPs equity infusion data (in INR Lakh Crores)¹³



16. While the surplus with the TSPs has dried up, the telecom industry is presently unable to generate funds through other sources such as equity infusion and debt. TRAI, in para 1.39 of the consultation paper, has itself recognised the fact that substantial capital investment is required for adoption of 5G technology and upgradation of the present networks to provide

¹² Source: TSPs Quarterly Results, COAI Analysis

¹³ Source: TSPs FY results * Includes only fig from Airtel & VIL

better Quality of Service. Investment of around Rs. 3 lakh Crores is required in next 2-3 years to meet the requirement of the users and to achieve the goals of the Government's Digital India program.

17. The telecom industry at this stage is unable to generate such a high level of investments as all sources of investments namely equity infusion, loans and surplus of the operators have dried up.
18. We thus believe that a long-term remedy for the financial viability of the sector could be achieved by rationalising the present tariffs for data services. We further submit that the tariff correction in the current level of fierce competition is not possible by any service provider voluntarily and thus the only option available is prescription of a minimum tariff for mobile data service by TRAI.
19. Our member operators have increased the tariffs in the first week of December 2019; the tariffs in India are still the lowest in the world, resulting in the lowest ARPU and we gather that the said tariff increase has been made after continuous substantive and structural tariff reductions in last few years. We also believe that not all the tariff hike will flow through to revenue stream. Further, individual TSPs may be able to comment more precisely on the impact of it in a competitive market. In any case the nature of increase shows that effective tariffs are far lower by any standards and insufficient for the purposes of recouping losses.
20. Thus, it has become important to safeguard the business viability of the sector. Many countries, as highlighted in the consultation paper, had opted to fix the floor price to protect the interest of the telecom sectors by ensuring minimum tariffs.
21. The fixation of floor price tariff for the telecom operators will be immensely beneficial to the consumers, the Government and the industry alike, both in the short as well as in the long term. As earnings of the sector improve, so will the investments, which would ultimately result in better network infrastructure and augmented quality of communication services to the consumers.
22. With the price hike, the Government's revenue share from telecom sector will improve in due course of time. TSPs will also have some additional funds to invest towards enhancement and expansion of services to consumers and fulfil the objectives of NDCP 2018.
23. Given the importance and speed with which there is a need to enable digital citizenship, it is important that the sectoral regulator take necessary steps towards the protection of the Interest of the telecom service providers for orderly growth of the telecom sector. We accordingly suggest that:

- a) TRAI should change the existing regulatory regime of complete forbearance in tariffs and Regulate tariffs to protect the interest of telecom service providers. This will also ensure better Quality of Services and adoption of new technology which will result in consumer benefits.
- b) Fixation of a floor price, despite the recent hike in tariffs, is the way forward to guarantee minimum revenue for the TSPs to ensure the viability and orderly growth of the sector.

Q5(a). What methodology should be used to fix floor price by the Authority and why? Please give detailed methodology with calculations and supporting justification.

Q5(b). If a floor price is considered, what should be the mark up over the relevant costs for arriving at a floor price? Please give detailed calculations and justification for your response.

Q8. What should be the basis and methodology for floor tariff fixation for mobile data service? Give detailed justification and calculations for your response.

Q9. What should be the representative cost for fixing a floor price for mobile data service? Give detailed calculations and justification for your response.

COAI Response:

1. The objective of the exercise should be to ensure the business viability of the sector i.e. existing players. It is pertinent to mention that the telecom sector has suffered due to substantial reduction in revenues despite increased investments in networks. The costs have been so high compared to revenues that many players have either exited or forced to merge. The high cost structure is also driven by burden of high levies coupled with high regulatory compliance cost. The total levy on the Indian telecom sector is ranging from 29% to 32%, which is one of the highest, when compared to South Asia and ASEAN countries. Given the competitiveness in the sector, the service providers are not able to pass-on the telecom levies to the subscribers.
2. Thus, the end objective of the floor price should be to ensure recovery of cost burden, ensure sustainability of the sector and provide room for investment to enhance the telecom services.
3. In summary a complete cost recovery should be the objective, which includes return on capital employed. This is to ensure that the revenue requirement of the operators is met which will ensure presence of adequate competition in the market.

Q6: Considering that cost of delivery of telecom services is likely to be different for different TSPs, what parameters should be considered to decide floor price and why? How can it be ensured that such a floor price fixation exercise does not result in windfall profits to few TSPs? Please give your response with detailed reasoning.

COAI Response:

1. Post consolidation, that there are three private operators and one government operator offering mobile services in India. Given this, the floor price proposal by the TRAI should ensure that all or at least majority of the TSP should be able to generate reasonable return on investment, overcome the financial stress in the sector and ensure that there are adequate number of TSPs so that customers' choice and competition is ensured. The costs of TSPs having highest or second highest costs must be considered for the latest period for this exercise.
2. Further, it is recommended that the floor price should be fixed only for an interim period, say period of two years, after which the Regulator may review the Tariff regime. The floor price will help the sector to stabilize in terms of business viability and the Regulator may review the Floor Tariff regime post that. In case of any other development, Regulator can always review it before the said period.

Q7. Is there a need to fix floor price for mobile data service? If yes, can such floor price be applied uniformly to different categories of subscribers such as retail consumer, corporate, tendered or otherwise contracts, segmented and any other including one on one? If it cannot be applied uniformly, will it not result in discrimination between various categories of subscribers? Please give your answer with detailed reasons and justification.

COAI Response:

1. Yes. There is a need to fix the floor price for mobile data services. Our response to Q1-4 and the preamble has outlined the reasons for the requirement to fix the floor price for mobile data service. At this stage we also submit that floor price structure must have a subscription/connectivity charge irrespective of use even for voice.
2. **We are of the view that the floor price should be applied uniformly to all categories of subscribers and for all type of tariff plan offerings.**

Q10. Should fixation of floor price be considered for voice calls also? Please give your comments with detailed justification.

Q11. If the answer to Q10 is affirmative, given that different technologies are being used to provide voice services (2G, 3G and 4G), what should be the methodology used to arrive at

a floor price for voice services? Please give detailed calculations and justification for your response.

COAI Response:

1. We are of the view that for voice calls, there is no requirement to fix a floor price.
2. Voice services are considered as essential services especially by the subscribers at bottom of pyramid and therefore would need to be continued under the present forbearance regime.
3. Also, we would hereby like to submit that at present the IUC prescribed by TRAI should be working as a floor price for voice service so that charging for voice services doesn't go below the prescribed IUC.
4. **Thus, while there is an urgent requirement to fix a floor price for data services, we do not see any such requirement for voice calls and voice tariffs should remain under forbearance.**
5. This is subject to our submissions made in our letter of 3 December 2019.

Q12: Should there be any limit on TSPs to offer free offnet calls? Please explain your response with justification.

Q13. If your answer to Q12 is affirmative, how should unlimited voice calls be defined? Please give your comments with detailed justification.

COAI Response:

1. As suggested earlier, voice tariff should continue to be under forbearance, since the same will affect the masses and will be difficult to implement. No TSPs should be allowed to issue bundled plans with unlimited free off-net calls along-with data. Beyond the bundled off net minutes, the rate charged per minute cannot be lower than the IUC rate. We rely upon our submissions made in our letter dated 3 December 2019 in this matter.

Q14. If a floor price is considered, should there be any floor price prescribed for bundled offers, including those having unlimited voice calls and data? Please give your comments with methodology and detailed justification.

COAI Response:

The floor for the Bundled offer can be determined in the following ways:

1. TSPs may ascribe a value to all the services, in a bundled plan for arriving at the floor price for data services.
2. TRAI may consider ascribing a value for Minimum Subscription Charge to be on the network, value of Unlimited Voice and the floor price for data services to arrive at floor price for bundled offer.

Q15. If a floor price is considered, should there be a price ceiling also to safeguard consumer interest? Please give your comments with detailed justification.

Q16. If your answer to Q15 is in affirmative, what should be the methodology used for fixing a price ceiling for mobile data service, voice services and bundled offers. Please give detailed calculations and justification for your response.

COAI Response:

1. It is pertinent to mention that due to the fierce competition in the telecom sector, the telecom tariff went down to a record lows which has benefitted the consumers. Even after the recent price hike by the TSPs in December 2019, the tariff in India is still the lowest in the world.
2. Thus, the competition in the sector has always safeguarded the consumer interest and did not allow any TSP to charge exorbitant price for their service. In fact, the competition has forced the TSPs to offer the services at such a low price that they cannot recover their costs hence, the requirement of setting up a floor price for data services has arisen.
3. We are of the view that setting a floor price has no link with the requirement to set a price ceiling, as hyper-competition has been driving down tariffs; the competition in the market has ensured affordability to the subscribers.
4. **Therefore, we suggest that there is no requirement to consider a price ceiling as the interest of the consumers is already safeguarded by the competition.**

Q17. Should all the tariff plans (retail consumer, corporate, tendered or otherwise contracts, segmented and any other including one on one) offered by the TSPs be subject to floor price tariff orders? Please give detailed justifications for your answer.

Q18. How can it be ensured that all the tariff plans of TSPs (retail consumer, corporate, tendered or otherwise contracts, segmented and any other including one on one), comply with the floor tariff orders? Please give you response with detailed justification.

COAI Response:

1. As suggested above, the floor price for data services should be prescribed uniformly irrespective of the type of customers or tariff plans. We are of the view that all the tariff plans should be subject to the floor price tariff orders. However, the Regulator must fix the withdrawal date of all existing plans (including Corporate, Consumer, Segmented, Tendered or otherwise contracts and any other) vide its Amendment to an existing TTO.
2. TSPs are required to do the tariff filing of their retail plans offered to the subscribers. TRAI can analyse the filed tariffs of the TSPs to determine whether the plan/offer is in compliance with the prescribed floor tariff orders.
3. In case of corporate/tender plans, offering of these plans are based on the type of contract the TSPs have entered with the corporate/companies. **In case of such plans, TSPs can give a quarterly compliance/undertaking while submitting the quarterly reports on count of corporate/bulk customers, stating that their plans are complying to the floor price orders.**

Q19. Any other relevant issue that you would like to highlight in relation to the above issues?

COAI Response:

1. While, we expect that TRAI prescribing floor price for data services will ensure that the telecom industry remains healthy and robust, existence of orderly competition and resources are available with the TSPs to enhance the QoS and expand their networks, we are also highlighting some suggestions for kind consideration of the Authority:
 - a. **Effective date for Withdrawal of Existing Plans:** TRAI must fix an effective date by amendment to existing TTO, from which all existing plans (Corporate, Consumer, Segmented, Tendered or otherwise contracts and any other) for mobile Telephone Services of all operators shall stand withdrawn.
 - b. **Validity of Current Plans:** All plans should close at the end of validity of existing fully paid plan for pre-paid and post-paid and corporate plans should close at the end of the billing cycle, following the billing cycle on the date on which the change is announced or implemented
 - c. **End of Tariff protection:** Currently, operators have to comply with 6 months protection requirement for tariff change. This mandatory tariff protection requirement to be dispensed with for all existing plans.

- d. **Prior Approval of Tariffs:** Operators to submit to TRAI any new plans to be launched. It will be considered deemed approved if no objection is received from TRAI within 48 hours of submission. Operators must file segmented and one to one plans as well.
2. As highlighted in our answer to Ques 1 to 4, Indian telecom sector is going through the phase of the Financial stress and it has become important to safeguard the business viability of the sector. Thus, we seek the urgent intervention of the Regulator. While the Authority has adopted a policy of forbearance, we believe that the industry is at a stage when the Authority should intervene and fix a floor tariff for the data services.
